
Reports and Testimony: May 1994

Highlights

Financial Derivatives

The rapid rise of complex financial transactions known as derivatives and the huge size of the market for these products pose potential risks for the U.S. financial system. As a result, Congress should consider legislation to close major gaps in regulation of these transactions. Page 10.

Nuclear Proliferation

Between 1988 and 1992, the United States approved more than 1,500 licenses for export of "dual-use" items, which can be used for nuclear weapons programs as well as civilian purposes, to eight countries suspected of developing nuclear explosives. Page 30.

Health Insurance

About one in four subscribers to Blue Cross-Blue Shield is covered by a plan in weak or very weak financial condition, the result of either plan mismanagement or state rate-setting and coverage requirements that put some of the plans at a competitive disadvantage. Page 21.

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Reports and Testimony:

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Agriculture and Food

Testimony

Meat Safety: Inspectors' Ability to Detect Harmful Bacteria Is Limited, by John W. Harman, Director of Food and Agriculture Issues, before the Subcommittee on Agricultural Research, Conservation, Forestry, and General Legislation, Senate Committee on Agriculture, Nutrition, and Forestry. GAO/T-RCED-94-228, May 24 (13 pages).

The federal meat inspection system is only marginally better at protecting the public from harmful bacteria than it was a year ago when several people died after eating hamburgers contaminated with *E. coli* bacteria. The U.S. Department of Agriculture (USDA) continues to rely on visual inspections that cannot detect such pathogens—the greatest public health threat associated with meat and poultry. USDA's efforts to improve its inspection system have skirted this inherent weakness, and USDA has not tried to require routine microbial testing by industry and government. In fiscal years 1993 and 1994, USDA budgeted about \$45 million to launch 81 projects to improve its current inspection system, such as (1) mandating package labels describing how to handle and cook meat and poultry safely, (2) undertaking more than two dozen data collection and research projects, and (3) strengthening oversight of meat and poultry plants with a high-risk profile. These efforts have probably lowered the chance that people will get sick from eating contaminated meat. Consumers and restaurants are now more aware that raw meat must be properly handled and cooked to kill bacteria. Also, USDA's more vigorous enforcement of the current sanitation and slaughter processing regulations will indirectly help control bacterial contamination by eliminating some potential sources of contamination. However, USDA still needs to adopt a modern, scientific, risk-based inspection system that would allow the agency to target inspections to higher-risk meat and poultry products and to develop methods to help inspectors detect microbial contamination.

Food Safety: A Unified, Risk-Based Food Safety System Needed, by John W. Harman, Director of Food and Agriculture Issues, before the Subcommittee on Human Resources and Intergovernmental Relations, House Committee on Government Operations. GAO/T-RCED-94-223, May 25 (23 pages).

The nation's food safety system hampers efforts to address public health concerns and is slow to respond to changing health risks. To resolve

long-standing problems and guarantee the safety of the food supply, a single food safety agency administering a uniform set of laws should be created. The existing system is characterized by inconsistent and inflexible oversight and enforcement authorities, inefficient resources use, and ineffective coordination. The adoption of a risk-based approach to inspection could lead to safer products and reduced costs as scarce resources are targeted to high-risk areas. Given the problems associated with establishing a new agency, consolidating food safety responsibilities under an existing department is a more likely scenario, although such an option has its own drawbacks. The Agriculture Department has conflicting interests that undermine public confidence in the government's ability to ensure food safety, and the Food and Drug Administration's food safety program is fraught with serious problems that must be addressed before it is given additional responsibilities.

Budget and Spending

Impoundments: Status of Proposed Rescissions of Fiscal Year 1994 Budget Authority

GAO/OGC-94-25, May 5 (four pages).

This letter reports on the status of budget authority that the President proposed for rescission in his fourth special impoundment message for fiscal year 1994. On February 11, 1994, Congress passed an emergency supplemental and rescission bill, which the President signed into law, that approved most of the proposed rescissions in the fourth special message and rescinded other budgetary resources. For the budget authority proposed for rescission in the fourth special message but which Congress did not approve in the rescission bill, the Office of Management and Budget informed GAO that all budget authority being withheld was released for obligation on April 20, 1994.

Working Capital Funds: Three Agency Perspectives

GAO/AIMD-94-121, May 20 (23 pages).

This report provides information on the budgetary approaches used by some agencies to finance administrative services. GAO provides the perspectives of officials from the Departments of Labor and Justice and the General Services Administration on (1) current budgetary practices

supporting the delivery of administrative services and (2) the potential effect of proposals contained in H.R. 3400, the Government Reform and Savings Act of 1993, which would establish franchise funds and innovation funds in executive branch agencies where such funds do not currently exist.

Economic Development

Testimony

Federal Disaster Insurance: Goals Are Good, But Insurance Programs Would Expose the Federal Government to Large Potential Losses, by Thomas J. McCool, Associate Director for Tax Policy and Administration Issues, before the Senate Committee on Commerce, Science, and Transportation. GAO/T-GGD-94-153, May 26 (54 pages).

Although the insurance industry has absorbed losses from recent natural disasters without systemic failures, concerns exist about its ability to handle losses from potentially larger disasters. The federal government has absorbed a large portion of the losses from past disasters and is likely to pay out even larger amounts in the future. S. 1350 would set up three interrelated programs—a multihazard disaster mitigation program, a primary insurance program for earthquakes and volcanic eruptions, and a reinsurance program to cap insurers' losses when major disasters occur. This testimony explains in detail the provisions of S. 1350 and provides GAO's analysis and concerns about the legislation.

Education

School-Age Children: Poverty and Diversity Challenge Schools Nationwide

GAO/HEHS-94-132, Apr. 29 (28 pages).

During the 1980s, an increasing number of America's school-age children were poor, more racially and ethnically diverse, and at risk for school failure. These problems were not limited to the largest cities or a few states or geographic areas. The growing number of poor and at-risk children means that many schools will have to address the needs of children who change schools frequently; are potentially low achievers; and have other difficulties, such as health and nutrition problems. Addressing

the needs of children from a multitude of language and cultural backgrounds also poses a growing educational challenge for school districts. The Elementary and Secondary Education Act—the federal government's main vehicle for addressing the needs of poor and at-risk children—will also face increasing demands as the number of these children increases. Ignoring these demands now may cause greater problems later as needy children potentially face a future of joblessness and lower incomes. Addressing these demands during a period of budgetary constraints will be difficult, however, and will challenge lawmakers and school officials to make every dollar count.

**Regulatory Flexibility in Schools:
What Happens When Schools Are Allowed to Change the Rules?**

GAO/HEHS-94-102, Apr. 29 (57 pages).

To enable school principals and teachers to attempt improvements in education, the federal government and some state governments have provided flexibility to schools as part of education reform initiatives by both reducing or eliminating regulations for schools through government action, such as legislative change, and waiving specific regulations upon request on a case-by-case basis. Under some state regulations, for example, a teacher might be discouraged from shortening the time devoted to some subjects—such as driver's education—in order to provide more in-depth coverage of difficult subjects—such as calculus. GAO studies the regulatory flexibility efforts of the following three states: California, Kentucky, and South Carolina. GAO (1) describes state regulatory flexibility efforts, (2) describes how schools used flexibility to attempt improvement, (3) determines what accountability systems states have implemented to ensure that children benefit from these efforts, and (4) determines how these efforts affected children with special needs.

Testimony

Higher Education: Grants Effective at Increasing Minorities' Chances of Graduating, by Cornelia M. Blanchette, Associate Director for Education and Employment Issues, before the Subcommittee on Education, Arts, and Humanities, Senate Committee on Labor and Human Resources.

GAO/T-HEHS-94-168, May 17 (11 pages).

As college tuition has soared during the past 15 years, grant aid to students has not kept pace, and loans accounted for an ever-increasing proportion of student aid. Although the trend in federal funding for higher education

is toward fewer grants and more loans, grant aid is more likely to improve graduation rates for some minorities. The shift in federal funding from grants to loans may save federal budget dollars initially but could cost the economy in the long run. Both grants and loans reduce the current outlay required of the student and his or her family. However, because of principal and interest repayment, loans—unlike grants—do not reduce the net cost of education to the student over time. Although the federal cost of a grant exceeds that of a loan or an equivalent amount, grants may be more cost-effective if they better encourage students to finish their college education and, as a result, boost their earnings potential.

Employment

Nonimmigrant Visas: Use of Visas by Alien Artists, Entertainers, and Athletes

GAO/NSIAD-94-147, May 11 (six pages).

As of September 1993, the Immigration and Naturalization Service (INS) had approved petitions for about 41,000 O and P visas, which are temporary worker visas for persons with distinguished merit and ability, including artists, entertainers, and athletes. The State Department's overseas posts had issued about 23,000 O and P visas, and aliens holding these visas had entered the United States about 31,000 times. The law requires the Attorney General to report to Congress each year, beginning in 1993, on the occupations of aliens seeking O and P visas. The 1993 report was lost during processing, however, and was not sent to Congress until March 1994—nearly a year late. The report due in April 1994 is now being prepared. INS is in the process of developing an automated database to compile information on the occupations of aliens whose petitions for O and P visas are approved. Until this system is in place, INS is using statistical sampling to estimate the occupations of petitioners. Its sampling for the period ending September 1992 showed that the majority of petition beneficiaries were musicians and composers.

Energy

Energy Conservation: Federal Agencies' Funding Sources and Reporting Procedures

GAO/RCED-94-70, Mar. 30 (42 pages).

The federal government is the largest single energy user in the nation. In fiscal year 1992, the energy bill for 500,000 federal buildings and facilities

come to more than \$3.6 billion. The National Energy Conservation Policy Act requires that federal agencies, by the year 2000, cut energy use 20 percent from 1985 levels. This report provides the latest information available on the energy activities at the six largest energy-consuming agencies: the Defense Department, the Energy Department, the Transportation Department, the Department of Veterans Affairs, the General Services Administration, and the Postal Service. GAO identifies (1) energy expenditures, spending on energy conservation, and energy efficiencies achieved; (2) funding sources available for energy conservation measures; and (3) procedures used for tracking them.

**Department of Energy:
Status of DOE's Property Management Program**

GAO/RCED-94-154FS, Apr. 7 (18 pages).

This fact sheet provides information on the management of Energy Department (DOE) property by the 20 major contractors involved in defense-related activities. GAO focuses on (1) the amount of missing property being reported to DOE by these contractors in their most recent property inventory reports, (2) the extent to which DOE has approved contractors' property management systems, and (3) examples of weaknesses reported in the most recent DOE review of the contractors' property management systems.

**Nuclear Waste:
Much Effort Needed to Meet Federal Facility Compliance
Act's Requirements**

GAO/RCED-94-179, May 17 (24 pages).

The Federal Facility Compliance Act requires the Energy Department (DOE) to (1) submit plans for treating mixed wastes, which contain radioactive and hazardous material, to host states or to the Environmental Protection Agency (EPA); (2) get approval of the treatment plans from the states or EPA; and (3) enter into legal orders requiring DOE to comply with the approved plans. If DOE fails to meet an October 1995 deadline, it will be subject to fines of up to \$25,000 per day for each violation of restrictions against storing untreated mixed wastes. Because DOE is months away from developing draft and proposed site treatment plans, it is too early to tell if DOE, the states, and EPA will be able to resolve technical and policy issues, negotiate final site treatment plans, and sign compliance orders in time to

meet the deadline. However, considering the amount of work that remains and the time available to finish it, if DOE either misses its milestones for preparing the draft and final site treatment plans or if the draft and plans do not adequately resolve mixed waste treatment, characterization, and disposal issues, the likelihood of missing the deadline increases.

**Naval Petroleum Reserve:
Limited Opportunities Exist to Increase Revenues From Oil Sales
in California**

GAO/RCED-94-126, May 24 (46 pages).

The government-owned and operated Naval Petroleum Reserve (NPR) in Elk Hills, California—the seventh largest oil field in the lower 48 states—generated oil sales revenues of \$327 million in 1992. The Energy Department (DOE) sells most of this oil to California refiners through competitive bids. The prices received by the government for this oil have been lower than prices for crude oil in other parts of the country. GAO concludes that it will be difficult for DOE to boost revenues from NPR oil sales by selling oil to Gulf Coast or midcontinent oil refineries because this oil is of lower quality than other available crudes and shipping costs are high. This report explores other ways that DOE may be able to increase revenues. For example, DOE bills its customers more often than private oil producers do, prompting buyers to make lower bids to compensate for the higher administrative costs. DOE also does not market its oil as aggressively as private producers do. In testimony before Congress, GAO summarized this report and also discussed (1) the relative priority that should be given to several options for improving the readiness and expansion of the Strategic Petroleum Reserve and (2) the evolving mission of the International Energy Agency; see:

Energy Policy: Energy Policy and Conservation Act Reauthorization, by Victor S. Rezendes, Director of Energy and Science Issues, before the Subcommittee on Energy and Power, House Committee on Energy and Commerce. GAO/T-RCED-94-214, May 25 (15 pages).

**Environmental
Protection**

**Hazardous Waste:
An Update on the Cost and Availability of Pollution Insurance**

GAO/PEMD-94-16, Apr. 5 (72 pages).

An estimated 275 million metric tons of hazardous waste are treated, stored, and disposed of annually in the United States, and the volume is growing. Congress has been concerned about the difficulties encountered by some hazardous waste facilities in obtaining pollution insurance. Unless facilities can demonstrate that they have the resources to cover bodily injury and property damages resulting from their operations, they cannot legally stay in business, which raises concerns about the adequate handling of hazardous waste. This report (1) lists insurance companies providing pollution liability insurance and closure or postclosure insurance and describes the extent of coverage and the coverage costs; (2) updates the cost and availability of pollution insurance to land disposal facilities; and (3) determines the implications if state cleanup funds were made available to treatment, storage, and disposal facilities for pollution cleanup and for compensating victims who have suffered pollution, bodily injury, or property damage.

Federal Facilities:

Agencies Slow to Define the Scope and Cost of Hazardous Waste Site Cleanups

GAO/RCED-94-73, Apr. 15 (36 pages).

Environmental laws require federal agencies to clean up hazardous and radioactive waste contamination at facilities they own or use or once owned or used. Agencies' early cleanup experiences indicate that the overall federal cleanup effort will be enormously expensive and will require decades to complete. Published estimates of the government's cleanup liability now range in the hundreds of billions of dollars and are still growing. This report (1) determines the status of federal efforts to identify facilities potentially requiring cleanup, (2) estimates future cleanup costs and (3) discusses obstacles to agencies' progress in these areas.

Pesticides:

Options to Achieve a Single Regulatory Standard

GAO/RCED-94-57, May 13 (34 pages).

Different standards in two key pesticide laws—the Federal Insecticide, Fungicide, and Rodenticide Act and the Federal Food, Drug, and Cosmetic Act—have led to differences in the way pesticides used on foods are regulated. These differences have their basis in law rather than science. As

a result, pesticides that have been found to cause cancer may be used on some foods but not on others, and the benefits of using pesticides, such as increased crop yields, may be considered in some but not all regulatory decisions. Several proposals before Congress would establish a single regulatory standard. This report discusses (1) the federal pesticide laws and the policies that the Environmental Protection Agency developed to implement them and (2) legislative options for establishing a single standard for regulating the use of pesticides on food.

Testimony

Toxic Substances Control Act: EPA's Limited Progress in Regulating Toxic Chemicals, by Peter F. Guerrero, Director of Environmental Protection Issues, before the Subcommittee on Toxic Substances, Research and Development, Senate Committee on Environment and Public Works. GAO/TRCED-94-212, May 17 (17 pages).

More than 70,00 chemicals are in use in the United States, many of which are highly toxic. Congress passed the Toxic Substances Control Act in 1976 to obtain more information on the effect of the chemicals on human health and the environment and to control those chemicals that present unreasonable risks. This testimony discusses the Environmental Protection Agency's (EPA) efforts to (1) assess the risks of chemicals before and after they enter commerce, (2) control those found to be harmful, and (3) make information on chemicals publicly available. GAO focuses on EPA's problems in implementing the act. GAO also highlights some differences between the act and the chemical control laws of three countries GAO studied: Canada, Germany, and Sweden.

Financial Institutions

Financial Derivatives: Actions Needed to Protect the Financial System

GAO/GGD-94-133, May 18 (196 pages).

Trading by corporations, banks, and governments in derivatives—financial contracts based, or derived from, an underlying market, such as stocks, bonds, or currencies—has expanded rapidly around the globe. Derivatives have enabled corporations to better manage the financial risks associated with doing business internationally and have provided opportunities to profit from swings in interest rates. Much derivatives activity in the United States is concentrated among 15 major U.S. dealers who are extensively linked to one another and their customers. The sudden failure or abrupt

withdrawal from trading of any of these large dealers could cause liquidity problems in the markets and pose risks to the others, including federally insured banks and the financial system as a whole. Federal intervention could involve industry loans or a financial bailout paid for by taxpayers. Concerns about derivatives have been heightened by recent reports of huge losses by some derivatives end-users. Comprehensive industry or federal regulatory requirements are lacking to ensure that U.S. over-the-counter derivatives dealers follow good risk-management practices. In such a rapidly growing and dynamic industry, new participants are likely, some of whom may not be as knowledgeable as current dealers or who may take on unwarranted risks in an attempt to gain market share or increase profits. In either case, systemic risk could increase. Federal regulators have begun to address derivatives activities, but significant gaps and weaknesses exist in the regulation of many major over-the-counter derivatives dealers. Further compounding the regulators' problems and contributing to the lack of knowledge by investors, creditors, and other market participants are inadequate rules for financial reporting of derivatives activity. In GAO's view, the issue is how to allow U.S. financial services to grow and innovate while protecting the safety and soundness of the nation's financial system. GAO makes several recommendations designed to help Congress, the regulators, and the industry address this issue. GAO summarized this report in testimony before Congress; see:

Financial Derivatives: Actions Needed to Protect the Financial System, by Charles A. Bowsher, Comptroller General of the United States, before the Senate Committee on Banking, Housing, and Urban Affairs and before the Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce. GAO/T-GGD-94-150, May 19 (eight pages).

**Deposit Insurance Funds:
Compliance With Obligation and Repayment Requirements as of
September 30, 1993**

GAO/AIMD-94-100, May 9 (23 pages).

The Federal Deposit Insurance Corporation's (FDIC) maximum obligation calculations show that as of September 30, 1993, (1) the Bank Insurance Fund's (BIF) assets and other funding sources exceeded its obligations by \$44 billion and (2) the Savings Association Insurance Fund's (SAIF) assets and other funding sources exceeded its obligations by \$1.2 billion. Nothing came to GAO's attention that would lead it to question the reasonableness

of the amounts reported. As of September 30, 1993, neither BIF nor SAIF had borrowed funds for insurance losses from the U.S. Treasury, although changing economic conditions and other factors could affect the need for future borrowings. FDIC anticipates that BIF will not need to borrow money from Treasury to cover insurance losses through fiscal year 1999 and that BIF will achieve its designated ratio of reserves to insured deposits of 1.25 percent by 1996. Passage of the Resolution Trust Corporation (RTC) Completion Act, which provides RTC with funding to resolve troubled thrifts, should reduce the likelihood that SAIF will need to borrow from Treasury to cover insurance losses in the near future. In August 1993, FDIC repaid the \$2.5 billion outstanding Federal Financing Bank balance of BIF's working capital borrowings.

**Bank Regulatory Structure:
The Federal Republic of Germany**

GAO/GGD-94-134BR, May 9 (42 pages).

Proposals to consolidate U.S. banking regulatory agencies have raised questions about how other countries structure and carry out their various bank regulation and central bank activities. This report provides information on the structure and operations of regulatory activities in The Federal Republic of Germany. Specifically, GAO describes (1) the German bank regulatory structure and its key participants, (2) how that structure functions, and (3) central bank responsibilities that affect the banking industry.

**1992 Bank Resolutions:
FDIC Chose Methods Determined Least Costly, but Needs to
Improve Process**

GAO/GGD-94-107, May 10 (65 pages).

The least-costly resolution provisions of the Federal Deposit Insurance Corporation (FDIC) Improvement Act of 1991 require FDIC to resolve failed banks with the least expensive method. Generally, FDIC complied with the law in calculating the costs of resolution alternatives and documenting cost evaluations during 1992. FDIC's procedures to estimate the net realizable value of failed bank's assets and to document cost evaluations improved in the latter half of 1992 as FDIC gained experience in carrying out new ways to estimate the net realizable value of the assets of failed banks. Some factors in the cost estimates were more uncertain than

others, such as estimates of insured and uninsured deposits, future losses from loss-sharing agreements, and the future market value of bridge banks. GAO's analysis of 22 sample resolutions indicated that FDIC consistently chose the resolution alternative that it deemed to be the least costly compared to the other approaches considered. In 18 of the 22 cases, however, FDIC did not document its rationale for the marketing strategy it selected. Although technically not required by law, such documentation would give the fullest effect of FDIC's statutory mandate to resolve failed banks in the least costly way.

**Bank and Thrift Regulation:
Better Guidance Is Needed for Real Estate Evaluations**

GAO/GGD-94-144, May 24 (20 pages).

The de minimus appraisal threshold is the dollar level set by federal financial regulators to exempt real estate loans made by federally insured financial institutions from statutory appraisal requirements. To reduce regulatory burden and foster economic growth, federal banking and thrift regulators issued a proposed rule in June 1993 to raise the de minimus appraisal threshold from \$100,000 to \$250,000 for both residential and commercial real estate loans. For loans of \$250,000 and below, financial institutions would be allowed to use a real estate evaluation instead of an appraisal. An evaluation is generally a simpler assessment of real estate market value made by individuals who need not be state licensed or certified. Some Members of Congress, consumer groups, and the appraisal industry have raised concerns that raising the de minimus appraisal threshold could harm the safety and soundness of financial institutions. They have also expressed concern about consumers' ability to be protected from and take action against questionable evaluation practices. This report assesses the regulatory guidance provided to financial institutions on evaluations, examination procedures provided to examiners on financial institutions' evaluation practices, and federal policies to protect consumers from questionable evaluation practices.

**American Stock Exchange:
More Changes Needed in Screening Emerging Companies for
the Marketplace**

GAO/GGD-94-72, May 25 (30 pages).

In March 1992, the American Stock Exchange (Amex) began trading equity securities on its Emerging Companies Marketplace, which was developed for companies too small to qualify for a standard Amex listing. That same month, an Amex official questioned the Marketplace listing of a company whose majority stockholder had been barred from Amex trading for violation of the exchange's trading rules. Shortly thereafter, media reports linked persons with criminal and regulatory violations to two companies listed on the Marketplace. Although Amex has tried to beef up its assessments of the companies' management, GAO found weaknesses in Amex's process for assessing companies' qualifications for Marketplace listing. Some qualitative factors have been stressed more than others. The nature of the company's business, its historical record and growth pattern, and its financial integrity have been given less emphasis than the company's commercial prospects and its management's reputation. Thirteen of 18 Marketplace-trade companies GAO reviewed had no revenues and earnings, declining revenues and earnings, or negative cash flows. GAO believes that Amex's failure to disclose the relative importance of qualitative factors could mislead investors about Marketplace eligibility standards. Finally, Amex did not always properly document that Marketplace-listed firms met all quantitative requirements before being traded.

Financial Management

Bonneville Power Administration: Borrowing Practices and Financial Condition

GAO/AIMD-94-67BR, Apr. 19 (36 pages).

The Bonneville Power Administration (BPA), which markets and distributes power generated on the Columbia River and its tributaries, faces significant operating and financial risks because of its heavy reliance on borrowing, recent operating losses, and other uncertainties. For nearly all of its capital investments, BPA uses debt financing—that is, BPA borrows money and repays the debt, with interest, through future revenues. Almost all of BPA's new borrowing is projected to come from the U.S. Treasury. By contrast, public utilities and federal entities, such as the Tennessee Valley Authority, generally use a higher portion of their current revenues to pay for capital expenditures than BPA does. In the short term, BPA's low financial reserves provide little flexibility to respond to further operating losses, increasing the possibility that BPA would be unable to make its annual payment to Treasury. In the longer term, BPA's financial viability could also be jeopardized if the gap between BPA rates and the cost of

alternative energy sources continues to narrow. Such a scenario could cause some BPA customers to meet their energy needs elsewhere, leaving a dwindling pool of ratepayers to pay off the debt burden accumulated during previous years.

Financial Audit:
House Office of the Sergeant at Arms—Periods Ended
December 31, 1992 and June 30, 1992

GAO/AIMD-94-81, May 3 (11 pages).

GAO audited the balance sheets of the appropriated funds administered by the House Office of the Sergeant at Arms for the periods ended December 31, 1992, and June 30, 1992, and the related statements of operations and cash flows. The Sergeant at Arms is responsible for three appropriated funds used for Members' salaries and benefits; reimbursements to Members for mileage to and from each session of Congress; and payments to widows, widowers, and heirs of deceased Members. GAO found that the financial statements were reliable in all material respects; internal controls reasonably ensured that losses, noncompliance with law and regulations, and misstatements material to the financial statements would be prevented or detected; and that there was no material noncompliance with laws and regulations.

Financial Audit:
Pension Benefit Guaranty Corporation's 1993 and 1992
Financial Statements

GAO/AIMD-94-109, May 4 (43 pages).

This report presents GAO's opinion on the financial statements of the Single-Employer Fund and the Multiemployer Fund for fiscal years 1993 and 1992. These financial statements are the responsibility of the Pension Benefit Guaranty Corporation, which runs the funds. Because of the Corporation's continuing progress in improving internal controls, GAO was able, for the first time, to evaluate each of the Corporation's financial statements for fiscal year 1993. Although material internal control weaknesses continue to affect both funds, the Corporation is working to resolve this problem. This report also includes GAO's recommendation to improve the Corporation's internal control structure and discusses GAO's continuing concerns about the long-term viability of the Single-Employer Fund and weaknesses in employee benefit plan audits and reports.

**Financial Audit:
House Recording Studio Revolving Fund for the Periods Ended
9/30/92 and 12/31/91**

GAO/AIMD-94-82, May 19 (12 pages).

GAO audited the financial statements of the House Recording Studio Revolving Fund for the periods ended September 30, 1992, and December 31, 1991, and the related statements of operations and cash flows. The studio makes photographic prints, as well as radio and television tape recordings, for Members of Congress and congressional committees. GAO found that the financial statements were reliable in all material respects; internal controls reasonably ensured that losses, noncompliance with laws and regulations, and misstatements material to the financial statements would be prevented or detected; and there was no material noncompliance with laws and regulations.

**Financial Audit:
Senate Recording and Photographic Studios Revolving Fund for
Fiscal Year 1991**

GAO/AIMD-94-29, May 26 (12 pages).

GAO audited the Senate Recording and Photographic Studios Revolving Fund's financial statements for fiscal year 1991. GAO found that the financial statements were reliable in all material respects. GAO found no material weaknesses in the internal control structure and its operation and no material noncompliance with laws and regulations.

**Government Sponsored Enterprises:
Freddie Mac's and Fannie Mae's Accounting for Costs of
Foreclosed Property**

GAO/AIMD-94-75, May 27 (34 pages).

This report provides information on the accounting changes made by two government-sponsored enterprises—the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association—in adopting the American Institute of Certified Public Accountants' Statement of Position 92-3, Accounting for Foreclosed Assets. Freddie Mac and Fannie Mae are federally chartered, privately owned, for-profit corporations created by Congress to ensure the availability of reasonably priced loans

to home buyers. GAO (1) assesses whether the accounting changes made by the government-sponsored enterprises in adopting the Statement of Position 92-3 were in accordance with generally accepted accounting principles, (2) estimates the changes' effects on their respective loan loss reserves, and (3) estimates the changes' effects on compliance with minimum capital requirements set by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. GAO also considers the potential effects of accounting guidance issued by the Financial Accounting Standards Board that conflicts with the Statement of Position 92-3 relative to recognizing selling costs.

Government Operations

OPM Revolving Fund: OPM sets New Tuition Pricing Policy

GAO/GGD-94-120, Apr. 6 (11 pages).

Congress has raised concerns that the tuition charged to federal agencies for some training courses unnecessarily exceeded the Office of Personal Management's (OPM) course production costs. GAO sought to determine (1) how tuition charges are set; (2) whether the tuition of individual courses are reasonably related to their costs; and (3) how excess tuition income, if any, has been used. A lack of documentation on how tuition are set hampered GAO's ability to answer the first objective. The training activity of OPM's revolving fund has run a deficit. OPM recognizes this problem and has developed a new policy to set prices for training courses so the training activity would recover all direct and indirect costs, document pricing methods, and reduce the differences in pricing practices. These corrective measures should resolve the problems GAO cited in its review.

White House: Travel Office Operations

GAO/GGD-94-132, May 2 (93 pages).

Although the White House had the authority to fire several employees in its press travel office in 1993, the White House should have made the effort to insulate its management decisions from influence from persons with a personal interest in travel office operations. Catherine Cornelius, Harry Thomason, and Darnell Martens, all of whom had potential personal or business interests in the Travel Office operations, created the momentum

to examine the Travel Office by raising allegations about improper management to White House officials and participating in activities that appeared to anticipate the firings. Although Mr. Thomason and Mr. Martens had passes that gave them unrestricted access to the White House and participated in discussions about the Travel Office, GAO did not conclude that they were "special government employees" subject to conflict of interest laws. GAO does question the practice of granting nongovernment employees uncontrolled access to White House offices without having policies to govern their activities. The appearance of influence and authority that access conveys could lead to inappropriate actions or abuses. This report discusses (1) past operations and oversight of the Travel Office; (2) current Travel Office operations and the extent to which identified problems have been corrected; (3) actions taken in the spring of 1993 that prompted the White House decision to investigate Travel Office operations and fire the employees; (4) actions taken during this period by other agencies, including the FBI and IRS; and (5) other matters related to the Travel Office situation.

Public-Private Mix:

Extent of Contracting Out for Real Property Management Services in GSA

GAO/GGD-94-126BR, May 16 (47 pages).

Past GAO reports have focused on specific procedural issues relating to contracting out, such as flaws in individual cost comparisons, job losses, and related management practices. GAO has not done a broad review of whether contracting out of building services has been beneficial and cost-effective. In fact, the appropriate mix of government and private sector commercial services remains unclear. This briefing report provides historical information on the extent of contracting out by the General Services Administration and its Public Buildings Service for real property management services, such as cleaning and general maintenance of federal facilities, during fiscal years 1982 to 1992.

Testimony

Federal Judiciary Space: Progress Is Being Made to Improve the Long-Range Planning Process, by Charles I. Patton, Associate Director for Federal Management Issues, before the Senate Committee on Governmental Affairs. GAO/T-GGD-94-146, May 4 (seven pages).

In a September 1993 report (GAO/GGD-93-132), GAO questioned the accuracy of the Judiciary's projections for its long-range space needs. GAO noted that all judicial districts were not treated consistently, existing space plus unmet needs was accepted as a baseline without questioning whether it was appropriate given a district's current caseload, and projection methods were not statistically acceptable and were very subjective. The Judiciary has implemented two of the six recommendations GAO made to overcome these problems—one involving the consistency of the process and the other relating to the time span covered by the projections. The Judiciary has partially responded to two other recommendations dealing with the projection methods and the level of subjectivity in the process. The Judiciary has not implemented the two remaining recommendations—improving the method for grouping districts and establishing appropriate baselines. Judiciary officials said that they are evaluating options for further action to fully address these recommendations.

Congressional Reform: Comments on The Legislative Reorganization Act of 1994—S. 1824, by Charles A. Bowsher, Comptroller General of the United States, before the Senate Committee on Rules and Administration. GAO/T-OCG-94-4, May 5 (six pages).

The proposed Legislative Reorganization Act of 1984—S. 1824—would repeal GAO's permanent authorization and replace it with reauthorization every eight years beginning in 1997. The Comptroller General testified that repeal of GAO's permanent authorization would be a serious mistake. The change could subject the agency to partisan political pressure, jeopardizing its independence and credibility. These are the very characteristics that have made GAO valuable to Congress and which clearly distinguish its findings and recommendations from those of the executive branch and private interests. In fact, the agency's independence and credibility were the primary considerations when Congress created GAO more than 70 years ago. The result was a statute that permanently authorized GAO, provided the Comptroller General with a 15-year non-renewable term of office, and set stringent requirements for his removal either by impeachment or by joint resolution of Congress for specific cause. The Comptroller General also testified on (1) a proposed requirement that GAO provide a yearly report on the cost of the support provided to each Senate Committee and each Senator and (2) congressional committee oversight of federal programs and agencies.

Federal Employment: H.R. 4361, Federal Employees Family Friendly Leave Act, by Timothy P. Bowling, Associate Director for Federal Human Resource Management Issues, before the Subcommittee on Compensation and Employee Benefits, House Committee on Post Office and Civil Service. GAO/T-GGD-94-152, May 18 (eight pages).

H.R. 4361, the "Federal Employees Family Friendly Leave Act," would allow family members who are federal workers to share annual leave and would allow employees to use their sick leave to help care for sick family members. GAO testified that experimentation with both of these changes is appropriate in that they will help make the government a more "family friendly" employer. GAO does not believe that the changes will be costly, but it does urge that the cost issue be examined carefully during the three-year experiment. The federal government lags behind nonfederal employers in helping workers balance employment and personal needs. Significant demographic changes in the workforce, such as the surge in the number of working women and two-earner households, have prompted many employers to redesign their human resource policies and programs. These employers find that family friendly programs can benefit both the company and the employee because of the savings derived from productivity gains and the improved recruitment and retention of quality workers.

Paperwork Reduction Act: Opportunity to Strengthen Government's Management of Information and Technology, by Gene L. Dodaro, Assistant Comptroller General for Accounting and Financial Management, before the Senate Committee on Governmental Affairs. GAO/T-AIMD/GGD-94-126, May 19 (13 pages).

The Paperwork Reduction Act is a vital part of a legislative framework, including the Chief Financial Officers Act and the Government Performance and Results Act, designed to resolve basic management problems undermining many government programs. The legislation is intended to reduce the information collection burden imposed on citizens by the federal government and to increase the efficiency and effectiveness of federal programs through information technology. This testimony (1) focuses on implementation of the act, particularly as it affects information resources management, and (2) the proposed reauthorization compromise.

Postal Service: Role in a Competitive Communications Environment, by Michael E. Motley, Associate Director for Government Business Operations Issues, before the House Committee on Post Office and Civil Service. GAO/T-GGD-94-162, May 24 (16 pages).

The risk to the Postal Service posed by competition and changing technology is very real. The Postal Service has already lost a significant part of its business. Parcel post and overnight mail declined substantially because the Postal Service could not compete on price and service. Although growth in letter mail has more than compensated for these losses during the past 20 years and is substantially protected from competition by law, it is somewhat vulnerable to alternative forms of delivery and is entirely unprotected from diversion to other technologies. This testimony focuses on the impact of emerging communication technologies on the Postal Service's ability to provide universal mail service at affordable rates. It also addresses the status of the postal automation program and the state of labor relations in the Postal Service.

Health

Blue Cross and Blue Shield: Experiences of Weak Plans Underscore the Role of Effective State Oversight

GAO/HEHS-94-71, Apr. 13 (64 pages).

The 1990 failure of Blue Cross and Blue Shield of West Virginia left thousands of people and many health care providers with millions of dollars in unpaid claims. More recently, congressional investigators uncovered serious financial problems as well as mismanagement at three other "Blues" plans and raised questions about the oversight of these plans by their boards of directors and state regulators. GAO found that 53 of 64 Blues plans are rated in fair to excellent condition by Weiss Research, Inc.—the only insurance rating agency doing such evaluations of Blues plans. The remaining 11 plans, which insure about one-quarter of all Blues subscribers, are rated as weak to very weak financially. Some plans were slow to respond to changing market conditions or made poor investment decisions, while others were put at a competitive disadvantage by rate-setting constraints and coverage requirements applicable only to Blues plans. In addition, weaknesses in oversight by plan boards of directors and state regulators allowed plans' financial problems to persist. The Blue Cross and Blue Shield Association, individual plans, and states have tried to remedy the problems of financially troubled plans, but it is

too soon to tell how successful these efforts will be. Under health care reform, the role of state insurance regulators in monitoring the financial solvency of Blues plans and protecting subscribers' and providers' interest will become increasingly important and challenging. It is essential that state insurance regulators have the tools necessary to enforce new requirements on Blues plans and other health insurers.

Health Care:
Antitrust Enforcement Under Maryland's Hospital All-Payer System

GAO/HEHS-94-81, Apr. 27 (14 pages).

One issue being raised in the debate over health care reform is how antitrust law should be applied to health care providers. Federal and state antitrust law seeks to prevent price fixing and predatory pricing and to ensure access to and quality of goods and services for consumers. Since 1974, Maryland has operated a rate-setting program that determines how much hospitals can charge for their services. Also, health care facilities operating in Maryland must obtain a certificate of need if they wish to change the type of services they provide or to make major capital expenditures. Because Maryland regulates hospital prices similar to the way in which public utilities are regulated, state antitrust concerns about hospital pricing are not an issue and Planning Commission-approved mergers and joint actions by hospitals are exempt from the state's antitrust law. Also, to the extent that the state actively regulates hospitals, federal antitrust enforcement concerning such regulated activities may not be relevant under the Supreme Court's state action immunity doctrine. Other concerns about anticompetitive conduct and its possible harmful effect on the public may still be relevant and covered by federal or state antitrust law.

Medicare:
Graduate Medical Education Payment Policy Needs to Be Reexamined

GAO/HEHS-94-33, May 5 (27 pages).

It is widely held that the United States is not training enough primary care physicians relative to types of physicians. In 1961, about half of all doctors were in primary care practice; if current trends continue, that number could drop to about 26 percent by 2020. At the same time, if health care

reform establishes a delivery system that incorporates managed care, the need for primary care physicians will increase. The Medicare program is the primary vehicle through which the federal government helps finance physician training and education. Although data are limited, some researchers argue that hospitals are using Medicare funds to disproportionately underwrite the training of nonprimary care physicians at a time when more primary care physicians are needed. This report (1) describes how Medicare compensates hospitals for the costs of graduate medical education and (2) determines the extent of Medicare support for the graduate medical education of primary and nonprimary care physicians.

Medicare/Medicaid:

Data Bank Unlikely to Increase Collections From Other Insurers

GAO/HEHS-94-147, May 6 (18 pages)

The Department of Health and Human Services has been directed to establish a data bank, beginning in February 1995, that would contain information on all workers, spouses, and dependents who are covered by employer-provided health insurance. The goal is to save millions by strengthening processes to (1) identify the approximately 7 million Medicare and Medicaid beneficiaries who have other health insurance coverage that should pay medical bills before Medicare and Medicaid kicks in and (2) ensure that this insurance is appropriately applied to reduce Medicare and Medicaid costs. In GAO's view, however, the data bank will end up costing millions and likely achieve little in the way of savings. GAO believes that changes and improvements to existing activities would be a much easier, less costly, and thus preferable alternative to the data bank. This is largely because the data bank will result in an enormous amount of added paperwork for both the Health Care Financing Administration and the nation's employers. GAO summarized this report in testimony before Congress; see:

Medicare/Medicaid: Data Bank Unlikely to Increase Collections From Other Insurers, by Leslie G. Aronovitz, Associate Director for Health Financing Issues, before the Senate Committee on Governmental Affairs. GAO/T-HEHS-94-162, May 6 (four pages).

**Medicaid Prenatal Care:
States Improve Access and Enhance Services, but Face New
Challenges**

GAO/HEHS-94-152BR, May 10 (44 pages).

About 37,000 infants die in the United States each year, many unnecessarily. Low birth weight is a major contributor to infant death and is associated with higher initial medical costs for infants and long-term medical and special education costs for those who survive. Public funds pay for many of these expenses. This briefing report discusses (1) whether states are using Medicaid to improve access to prenatal care services and enhance services to poor women and what reported effect that may have on birth weight and infant mortality and (2) whether lessons have been learned about providing care for underserved populations that Congress should consider as it debates health care reform. GAO concludes that states have improved access to and strengthened the prenatal care provided to poor women by Medicaid. Although early indicators suggest a reduction in infant mortality and low birth weight rates, some health care proposals could undermine these efforts.

**Medicare:
Shared System Conversion Led to Disruptions in Processing
Maryland Claims**

GAO/HEHS-94-66, May 23 (21 pages).

Since 1989, the Health Care Financing Administration (HCFA) has tried to reduce administrative costs by urging Medicare contractors to share claims processing system software and hardware with other contractors. In October 1991, Blue Cross and Blue Shield of Maryland began using claims processing software developed by another contractor. For more than a year after the system conversion, Medicare payments to Maryland physicians were frequently late and often contained errors, resulting in unanticipated costs of more than \$5 million. The Maryland contractor has yet to realize any of the anticipated annual savings of more than \$600,000 in administrative costs. Poor management by Blue Cross and Blue Shield of Maryland and poor decisions by HCFA contributed to the contractor's costly and turbulent shared system conversion. In particular, HCFA and the Maryland contractors did not allow enough time to plan the effort and scheduled the conversion during a period of Medicare program changes requiring major computer system modifications. The Maryland

contractor's experience provides valuable lessons for the future, especially given HCFA's plan to convert the 14 systems that the contractor now uses to a single automated claims processing system. HCFA needs to ensure that planning and testing time for major system changes are adequate and not compromised by its desire to achieve administrative savings.

**Health Care Reform:
School-Based Health Centers Can Promote Access to Care**

GAO/HEHS-94-166, May 13 (12 pages).

GAO's work suggests that school-based health centers—facilities located on a school's grounds that provide preventive, medical, and mental health care services to students—do improve children's access to health care. The centers can help to overcome barriers that now limit access, including the lack of health insurance, transportation difficulties, and insufficient attention to the needs of adolescents. School-based centers around the nation face a common set of problems. For example, centers lack a stable source of funding, do not always have enough resources for meeting their patients' health needs, and have difficulty obtaining reimbursement from public and private insurers. They also face problems recruiting and retaining appropriately trained staff. Furthermore, local debates over the appropriateness of reproductive health services in these centers have hampered their ability to meet some adolescents' health needs. Federal health care reform that increases access to insurance coverage could alleviate some of the centers' problems. However, reform that expands the role of managed care networks may worsen financial problems because of the reluctance of these networks to reimburse centers.

Housing

**Lead-Based Paint Poisoning:
Children in Section 8 Tenant-Based Housing Are Not
Adequately Protected**

GAO/RCED-94-137, May 13 (24 pages).

The lead-based paint inspections that the Department of Housing and Urban Development (HUD) requires public housing authorities to conduct in section 8 housing mainly entail visual searches for chipped or peeling paint. These inspections do not test for lead unless a child with elevated lead levels is known to live in the home. The four public housing authorities GAO visited—Boston, Massachusetts; Minneapolis, Minnesota;

New Orleans, Louisiana; and St. Paul, Minnesota—complied with these requirements, but their visual inspections did not alert them to lead hazards in intact painted surfaces, such as floors, window sashes, and window sills. HUD officials could not estimate the cost of testing section 8 housing or whether requiring such testing would discourage landlord participation in the program. Federal regulations did not adequately protect children with elevated lead levels living in the four public housing authorities GAO studied. Tests by local housing agencies showed that seven of the 11 residences selected for GAO's study contained lead-based paint hazards. The public housing authorities, however, did not know whether paint testing was being done, and local health agencies did not routinely determine whether the children they identified with high lead levels lived in section 8 housing. Consequently, they did not alert the public housing authority to the children's condition. The applicability of the Lead-Based Paint Poisoning Prevention Act to section 8 housing is unclear. Although the act appears to cover section 8 housing, the legislative history suggests that Congress intended to exempt such housing from the act's requirements for lead-based paint risk assessments and other control measures. Because these requirements could be costly, they could discourage landlord participation in the program, thereby reducing the stock of affordable housing. HUD, however, maintains that the act does apply to section 8 housing and plans to draft rules imposing the act's requirements for dwellings in the program.

**Section 8 Rental Housing:
Merging Assistance Programs Has Benefits but Raises
Implementation Issues**

GAO/RCED-94-85, May 27 (44 pages).

The Department of Housing and Urban Development (HUD) runs two similar rental housing subsidy programs for low-income households—the section 8 certificate and voucher programs. These two programs, which local and state housing agencies operate for HUD, enable 1.3 million poor families to live in decent, affordable, privately owned housing. Although these programs are in many ways similar, several statutory and administrative differences can affect the housing subsidy that households receive. Over the past several years, GAO, the Vice President's National Performance Review, and others have urged that the two programs be combined; legislation now before Congress would accomplish that goal. This report examines (1) the benefits of a merger, (2) the major program differences that would need to be reconciled, (3) the effect of a merger on

HUD's budgeting and financial management, and (4) the effort needed to merge the two programs.

Homelessness:

McKinney Act Programs Provide Assistance but Are Not Designed to Be the Solution

GAO/RCED-94-37, May 31 (72 pages).

The Stewart B. McKinney Homeless Assistance Act of 1987 established emergency food and shelter programs; programs providing longer-term housing and supportive services; and programs designed to demonstrate effective approaches for providing the homeless with other services, such as physical and mental health, education, and job training. GAO evaluated the act's impact in Baltimore, Maryland; San Antonio, Texas; Seattle, Washington; and St. Louis, Missouri. This report discusses (1) what difference the McKinney Act programs have made in these cities' efforts to help the homeless, (2) what problems the cities have experienced with McKinney Act programs, and (3) what directions the cities' programs for the homeless are taking and what gaps the McKinney Act programs may fill.

Testimony

Housing and Urban Development: Management and Budget Issues in HUD's Fiscal Year 1995 Appropriation, by Judy A. England-Joseph, Director of Housing and Community Development Issues, before the Subcommittee on VA, HUD, and Independent Agencies, the House and Senate Committee on Appropriations. GAO/T-RCED-94-206, May 12 (20 pages).

This testimony offers GAO's analysis and comments as part of the fiscal year 1995 appropriations hearing for the Department of Housing and Urban Development (HUD). Faced with increasingly limited budgets and seemingly endless demand for its resources, HUD is scrutinizing the way that it works so that it can do more with less. HUD's effort is two-pronged: the Department is totally reorganizing to improve its delivery of services at the same time it is "reinventing itself"—examining the emphasis of its programs, its priorities, and its way of doing business. The outcome of these efforts will have a major impact on the appropriations HUD seeks. This testimony identifies a number of issues in need of further study or resolution in HUD's management of either specific programs or large parts of its budget.

Income Security

Social Security: Major Changes Needed for Disability Benefits for Addicts

GAO/HEHS-94-128, May 13 (22 pages).

The number of addicts receiving disability benefits has grown substantially during the last five years—from fewer than 100,000 to about 250,000 today. The annual cost of providing benefits to addicts is about \$1.4 billion. The vast majority of addicts receiving disability benefits are either not in treatment or their treatment status is unknown. About 100,000 addicts have not been assigned a third-party or representative payee to manage their benefits. Consequently, the Social Security Administration (SSA) has no guarantee that these persons are not using their benefit checks to buy drugs or alcohol. Even in cases when payees have been assigned, their control over benefit payments is questionable; most of these payees are friends or relatives. Because addicts can abuse, threaten, and pressure their payees, GAO believes that organizations would make better payees for addicts than friends or relatives. SSA needs to ensure that all disability benefit recipients are in treatment and that all addicts have a third-party or representative payee. Also, Congress needs to consider expanding the treatment requirement to all addicts and restructuring the program to improve the payoff from treatment.

Social Security Disability: Most of Gender Difference Explained

GAO/HEHS-94-94, May 27 (45 pages).

Under the Social Security Disability Insurance Program, older women are allowed benefits at a lower rate than are older men. For example, in 1988, 39 percent of female applicants aged 55 to 64—compared with 50 percent of the male applicants of the same age—were allowed benefits. However, GAO found that this difference does not necessarily point to bias in the system. Rather, most of the difference could be explained by gender difference in impairments and demographic characteristics and by the rules for determining disability.

Information Management

Testimony

Governmentwide Initiatives: Critical Issues Facing the Next Federal Telecommunications System, by Jack L. Brock, Director of Information Resources Management/Policies and Issues Group, before the Senate Committee on Governmental Affairs. GAO/T-AIMD-94-114, May 3 (10 pages).

In recent months, the General Services Administration (GSA) and the Defense Department (DOD) have started to consolidate the acquisition of telecommunications services for both the civil and defense agencies within government. Although GAO supports the consolidation and believes that it could lead to a truly integrated, governmentwide telecommunications system, several major issues must be addressed if the effort is to be successful. This testimony discusses (1) the progress GSA has made in improving its overall management of the Federal Telecommunications System (FTS) 2000; (2) DOD's efforts to reinvent the way it manages its communications resources; and (3) the recent decision by GSA and DOD to consolidate communications requirements for the follow-on to FTS 2000. GAO also touches on key issues that Congress and the executive branch agencies will need to consider in planning for a consolidated telecommunications acquisition.

Health Care: Benefits and Barriers to Automated Medical Records, by Frank W. Reilly, Director of Information Resources Management/Health, Education, and Human Services, before the Senate Committee on Governmental Affairs. GAO/T-AIMD-94-117, May 6 (12 pages).

In 1994, health care costs are expected reach more than \$1 trillion—one-seventh of the total U.S. economy. This level of spending, its continuing growth, and the lack of standardized health care information on the types of care being provided and measurable results, raise concern about whether the United States is getting full value for each health care dollar spent. Information systems technology offers health care providers many opportunities to improve care, control costs, and report results. However, most health care providers today maintain medical records in manual, paper-intensive systems that are difficult to retrieve information from and require huge amounts of physical storage space. The barriers to automating medical records and developing a systems framework to support health care reform include the lack of standards, cost of

automation, security and privacy issues arising from the use of automated medical information, and the reluctance of health care professionals to use new technology. Any health care reform proposal will greatly benefit from access to timely information that can be used to manage and oversee the program. Strong federal leadership will be required to ensure that adequate steps are taken to design, develop, and implement a systems framework that supports a nationwide program.

International Affairs

Nuclear Nonproliferation: Export Licensing Procedures for Dual-Use Items Need to Be Strengthened

GAO/NSIAD-94-119, Apr. 26 (69 pages).

Iraq's use of so-called dual-use equipment—items with civilian uses that can also be used to build nuclear explosives or produce weapons grade uranium and plutonium—has raised concerns about the effectiveness of export controls over this material. The United States approved more than 1,500 licenses for dual-use items, mainly high-speed computers, to eight countries with suspected nuclear weapons programs, significantly increasing the risk that U.S. exports are fueling nuclear proliferation. Weaknesses in the interagency licensing review process have resulted in the approval of a number of sensitive license applications without review by the Energy Department or other members of the Subgroup on Nuclear Export Coordination, an interagency group. U.S. government approval of sensitive exports dictates the need for effective ways to prevent or detect export diversions, but GAO discovered several weaknesses in current procedures. These include (1) inadequate criteria for selecting prelicense checks and postshipment verifications, (2) ineffective methods used to do these inspections, and (3) a lack of verification of government-to-government assurances against unclear end uses. GAO summarized this report in testimony before Congress; see:

Nuclear Nonproliferation: Licensing Procedures for Dual-Use Export Need Strengthening, by Joseph E. Kelley, Director of International Affairs Issues, before the Senate Committee on Governmental Affairs. GAO/T-NSIAD-94-163, May 17 (20 pages).

**International Trade:
U.S. Government Policy Issues Affecting U.S. Business Activities
in China**

GAO/GGD-94-94, May 4 (75 pages).

With one of the world's fastest growing economies and a population of 1.2 billion, the People's Republic of China is becoming an increasingly important player in the world trading system. In light of this development, GAO reviewed major U.S. government programs and policies that either promote or hinder U.S. business activities in China. This report identifies (1) factors contributing to the growing importance of the U.S.-China trade relationship, (2) U.S. government and international programs promoting bilateral trade and supporting the development of China's economy, and (3) U.S. government policies that may decrease U.S. business opportunities in China. GAO also discusses how the United States is trying to balance its economic, human rights, security, and other interests in its relationship with China.

**International Trade:
Competitors' Tied Aid Practices Affect U.S. Exports**

GAO/GGD-94-81, May 25 (36 pages).

"Tied aid" refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. Tied aid can consist of foreign aid grants alone, grants mixed with commercial financing or official export credits, or low-interest loans. Competitors' tied aid practices can put U.S. exporters at a competitive disadvantage in bidding on overseas projects. GAO estimates the potential loss of U.S. capital goods exports due to these tied aid practices to be as high as \$1.8 billion annually. Although most countries provide tied aid, significant differences exist between U.S. tied aid programs and those of its competitors: most U.S. tied aid is linked to programs meeting basic human needs, such as education, health, and food aid, while other countries' tied aid programs concentrate on capital projects. Donor countries obtain greater economic benefits from tying aid to capital projects because they usually involve importing large quantities of high-value-added goods. Capital projects also involve follow-on sales in later years. This reports discusses (1) the amounts of tied aid provided by the United States and six of its competitors, (2) the types of tied aid programs of each country, (3) the potential impact on U.S. exports of U.S. competitors' tied aid practices,

(4) the Organization for Economic Cooperation and Development's 1992 agreement on tied aid, and (5) the Trade Promotion Coordinating Committee's new Tied Aid Capital Projects Fund. GAO summarized this report in testimony before Congress; see:

International Trade: Combating U.S. Competitors' Tied Aid Practices, by Allan I. Mendelowitz, Director of International Trade, Finance, and Competitiveness Issues, before the Subcommittee on Economic Policy, Trade, and the Environment, House Committee on Foreign Affairs. GAO/T-GGD-94-156, May 25 (16 pages).

Testimony

Multilateral Assistance: Accountability for U.S. Contributions to the World Food Program, by Harold J. Johnson, Director of International Affairs Issues, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. GAO/T-NSIAD-94-174, May 5 (13 pages).

GAO testified that millions of dollars worth of U.S. commodities donated to the World Food Program through the Agency for International Development (AID) were lost, stolen, or mishandled. The losses went unchecked because AID relied on ineffective accountability procedures and did not effectively monitor the distribution and use of donations. The World Food Program's commodity loss reports to donors were incomplete and inaccurate and did not adequately highlight distribution problems or the need for corrective action. GAO also testified that the United States often did not respond quickly to emergency food requests from the World Food Program because the requests were not treated as emergencies. GAO found no evidence, however, that aid recipients suffered because of the slow U.S. response.

International Trade: Efforts to Open Foreign Procurement Markets, by Allan I. Mendelowitz, Director of International Trade, Finance, and Competitiveness Issues, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. GAO/T-GGD-94-155, May 19 (15 pages).

The value of the original General Agreement on Tariffs and Trade (GATT) Tokyo Round Agreement, or code, on Government Procurement in 1979 did not meet expectations. That situation led to title VII of the Omnibus Trade and Competitiveness Act of 1988, which requires an annual report identifying countries that discriminate against U.S. goods and services and

the imposition of sanctions if negotiations fail to end the discriminatory procurement practices. The United States also negotiated in the Uruguay Round to improve the code. This testimony presents GAO's preliminary analysis of recent negotiations involving international government procurement and GAO's observations about the President's April 1994 title VII report on discrimination in foreign government procurement.

Justice and Law Enforcement

Bureau of Alcohol, Tobacco, and Firearms: Handling of Suspect Lead in Langley/CIA Headquarters Shooting Incident

GAO/OSI-94-11, Apr. 26 (13 pages).

In January 1993, a gunman killed two persons and wounded three others at an employee entrance to the Central Intelligence Agency (CIA) headquarters in Langley, Virginia. A Bureau of Alcohol, Tobacco, and Firearms (BATF) employee investigating the incident collected firearm sales records, including those of the suspected gunman, from a gun store in Northern Virginia and handled them in accordance with BATF regulations. The store manager and gunsmith claim that the gunsmith told the BATF agent that a composite sketch of the suspected gunman looked like the individual who, a few days earlier, had bought an AK-47 assault rifle from the store. Although the evidence developed during GAO's investigation tends to support the statements of the gunsmith and the store manager, the BATF agent denies that the gunsmith identified the composite. Further, although it was alleged that BATF's failure to follow up on important information allowed the suspect to flee the United States, GAO's investigation found that the suspect had left the country the day before the BATF agent visited the gun store.

National Defense

Contract Pricing: Reasons for the Decline in Reported Defective Pricing

GAO/NSIAD-94-144BR, Apr. 11 (27 pages).

Defective pricing occurs when a contractor negotiating a price for a contract anticipated to be over a specified dollar value does not submit accurate, current, or complete data about the costs included in its proposal, thus increasing the contract price. If defective pricing is discovered, the government has the right to recover the amount of the

overcharge. In May 1992, GAO reported that the amount of potential defective pricing on Defense Department (DOD) contracts as reported by the Defense Contract Audit Agency had dropped for the first time in years. This briefing report discusses the reasons for the reduction and any further declines that might be occurring. GAO focuses on the three-year period beginning in fiscal year 1990—the peak of the reported defective pricing—and ending in fiscal year 1992—the latest year for which data were available.

Commercial Practices:

Leading-Edge Practices Can Help DOD better Manage Clothing and Textile Stocks

GAO/NSIAD-94-64, Apr. 13 (72 pages).

At a time when private sector companies are cutting costs by minimizing inventories, the Pentagon continues to store redundant levels of clothing and textile inventories. Much of this material is aged and obsolete—for about 26 percent of the items, the Defense Department (DOD) had 10 years of supply on hand. DOD is incurring unnecessary inventory storage and handling costs because of the large supply operations infrastructure required to maintain these stocks. Competition has forced private sector firms to cut costs by moving to “just-in-time” inventory concepts that help keep inventories low, turn stock frequently, and fill orders quickly while maintaining good customer service. For example, leading private sector uniform providers have 60 to 90 days worth of wholesale supplies on hand while the Defense Logistics Agency (DLA) has two to 10 years of supply. Many private sector firms and some federal agencies with uniformed employees are relying on prime vendors to manage their clothing inventories. DOD recently began to increase its use of innovative concepts, such as “quick response,” but progress has been slow. In particular, DLA has yet to explore the possibility of using prime vendors to supply high volume clothing and textile items, even though they appear particularly well suited to the operations of the induction centers for recruits.

Environmental Cleanup:

Too Many High Priority Sites Impede DOD's Program

GAO/NSIAD-94-133, Apr. 21 (27 pages).

Despite spending a reported \$3.76 billion through September 1993 for its program to clean up hazardous waste at high priority installations, the

Defense Department (DOD) has proceeded slowly during the past decade. Most of the time and money has been spent on studying the problem, and few hazardous waste sites have actually been cleaned up. This report reviews DOD's (1) progress in its cleanup efforts and estimated costs, (2) plans for completing the cleanup at high priority installations, and (3) factors that have affected progress in cleaning up high priority sites.

DOD Budget:
Analysis of Options for Funding Contingency Operations

GAO/NSIAD-94-152BR, Apr. 26 (19 pages).

In paying for contingency operations, Congress should first consider whether funding should come from existing or supplemental appropriations. If the funds come from existing appropriations, spending plans are disrupted because funding for other planned requirements has to be cut. Additional resources received through supplemental legislation would not have this same impact, but such legislation could be subject to the discretionary spending limits of the Budget Enforcement Act unless designated as "emergency" funding. Once this decision is made, Congress can focus on the mechanisms for using the funds. Several mechanisms exist that are readily available to both the Defense Department and Congress. Congress also has the option to amend existing mechanisms or create new mechanisms specifically for contingency operations.

Continental Air Defense:
A Dedicated Force Is No Longer Needed

GAO/NSIAD-94-76, May 3 (29 pages).

The continental air defense evolved during the Cold War to detect and intercept Soviet bombers attacking North America via the North Pole. GAO concludes that such an air defense is no longer needed and could be disbanded at an annual savings of as much as \$370 million. Other reserve and active units are well equipped to handle what has become the defense force's current focus—intercepting drug smugglers. The Chairman of the Joint Chiefs of Staff recommended that (1) the continental air defense be performed by dual tasking active and reserve general-purpose fighter and training squadrons in the Air Force, the Navy, and the Marine Corps and (2) the number of Air National Guard units assigned to this mission be sharply reduced or eliminated. The Secretary of Defense's guidance and the Air Force's plan, however, accomplish only part of what was

envisioned by the Chairman, allowing the Air National Guard to retain an excessive force structure and incur the associated operating and support costs.

**Military Training Deaths:
Need to Ensure That Safety Lessons Are Learned and Implemented**

GAO/NSIAD-94-82, May 5 (27 pages).

Not all training deaths are investigated by the military services, with some fatalities attributed to natural causes even when training may have been a factor. Meanwhile, weaknesses in the services' controls for investigating training fatalities increase the risk of biased investigations and ignored recommendations. Current legal investigative procedures do not guarantee that the officials who appoint the investigators and the investigators themselves are independent of the unit that experienced the mishap or that report recommendations are monitored until resolution.

**Air Force Fighters:
More Reliance on Reserves Increases the Need to Know
Their Capabilities**

GAO/NSIAD-94-86, May 9 (48 pages).

In response to reductions in active-duty forces, the Pentagon will likely turn to reserve fighter wings to make up the difference in air power; however, these units generally have older, less capable aircraft and pilots who have been trained less rigorously. More reliance on reserve forces as part of a smaller total force increases the risk that forces will be unable to deploy promptly and accomplish the same range of missions as active forces. The degree of risk will depend on how rapidly hostilities escalate; the enemy's capability; and the reserve force's availability, equipment status, and level of training. Congress may want to have the Air Force, Air National Guard, and Air Force Reserve discuss how they intend to minimize the risks from increased reliance on reserve forces. Also, Congress, when debating the appropriate mix of reserve and active fighter forces and requirements for 20 fighter wing equivalents responding to two major regional contingencies, should also consider asking the Air Force to provide indicators of relative capability.

**Navy Maintenance:
Assessment of the Public and Private Shipyard
Competition Program**

GAO/NSIAD-94-184, May 25 (28 pages).

Competition between public and private shipyards has been the subject of considerable debate during the past 10 years. Legislation enacted since 1985 has tried to increase competition between the two sectors for defense maintenance work and ensure that the competitions are fair to both sectors. This report assesses the results of these competitions and analyzes related issues, such as the costs included in competitive bids and factors considered in the bid evaluation process. GAO also includes background information on the Navy's public-private competition programs for surface ships and submarine repair.

**Army Inventory:
Changes to Stock Funding Repairables Would Save Operations and
Maintenance Funds**

GAO/NSIAD-94-131, May 31 (28 pages).

This report reviews the Army's implementation of a Pentagon requirement to fund the procurement of reparable items through a stock fund, called stock funding of depot level repairables. GAO found that the Army's switch to the fund has help reduce demand for reparable items about 55 percent—from \$8.3 billion in fiscal year 1991 to \$3.7 billion at the end of fiscal year 1993. The decreased demand allowed the wholesale system to reduce its procurement of repairables by about 75 percent, from \$1.8 billion to \$443 million during the same period. This report also discusses how the switch has affected management of maintenance and inventory activities and use of operation and maintenance funds at the unit level.

Testimony

Ballistic Missile Defense: Information on Theater High Altitude Defense (THAAD) and Other Theater Missile Defense Systems, by Brad Hathaway, Associate Director for Systems Development and Production Issues, before the Senate Committee on Foreign Relations. GAO/T-NSIAD-94-167, May 3 (14 pages).

The Theater High Altitude Area Defense (THAAD) system, a mobile, land-based system being developed by the Defense Department (DOD), is

intended to take out ballistic missiles at high altitudes and long ranges using hit-to-kill technology. This should reduce the probability that debris and chemical or biological agents from a warhead will reach the ground in damaging amounts. The system is designed to protect wide areas, such as cities, small countries, and dispersed military forces. The THAAD system will consist of missiles, mobile launchers, ground-based radars, a tactical operations center, and support equipment. The United States is now discussing with the Russians a proposal to allow systems like THAAD to be developed and deployed. The ABM Treaty prohibits mobile, land-based systems that can counter strategic ballistic missiles, but it does not define the characteristics of either a strategic or a theater missile. Some theater missiles, however, do not approach the capabilities of the older, shorter range strategic missiles in terms of maximum range. The concern is that THAAD, if given the ability to counter the new, more capable theater threats, would have some capability against strategic ballistic missiles. This would have serious implications for THAAD and the ABM Treaty.

Air Force Bombers: Conventional Capabilities of the B-1B Bomber, by Louis J. Rodrigues, Director of Systems Development and Production Issues, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. GAO/T-NSIAD-94-169, May 4 (10 pages).

In GAO's view, the jury is still out on just how effective the B-1B aircraft will be as a conventional bomber. Adapting the aircraft from a nuclear to a conventional role entails many new requirements—mainly relating to maintaining the plane's mission capability after repeated conventional sorties—and the extent to which the B-1B will be able to meet the increased requirements has yet to be determined. This testimony focuses on the B-1B force structure, the Conventional Mission Upgrade Program, the status of some of the bomber's recently reported operational problems, and the congressionally mandated six-month operational readiness assessment.

Tactical Aircraft: F-15 Replacement Issues, by Louis J. Rodrigues, Director of Systems Development and Production Issues, before the Subcommittee on Coalition Defense and Reinforcing Forces, Senate Committee on Armed Services. GAO/T-NSIAD-94-176, May 5 (10 pages).

The Pentagon plans to replace the F-15 fighter aircraft with the F-22. GAO testified that the threat that the F-22 must meet has declined since 1991 when the F-22 program entered engineering and manufacturing

development. GAO's comparison of the performance capabilities of the F-15 against those of the current projected threat indicate that the F-15 will be superior to the most advanced threat system for a number of years past 2003, the planned operational capability date of the F-22. Further, the F-15 can be economically maintained in a structurally sound condition until 2015 or later. The F-22 aircraft is not designed for multiple missions or joint use among the services, even though the Defense Department has indicated that these are important features for tactical aircraft modernization.

Natural Resources

Water Subsidies: Impact of Higher Irrigation Rates on Central Valley Project Farmers

GAO/RCED-94-8, Apr. 19 (92 pages).

Farmers have received federally subsidized water from the Interior Department's Central Valley Project for up to 40 years under fixed-rate water service contracts. The fixed rates, however, no longer function as intended; they do not cover Interior's operating costs and have not been enough to repay virtually any of the \$1 billion in construction costs owed. Moreover, environmental and water use problems have been linked to the irrigation carried out under these contracts. Studies by agricultural economists suggest that higher water prices would increase irrigation efficiency and conservation, thereby reducing environmental degradation caused by irrigation and freeing up water now used for irrigation for other uses. This report (1) estimates the impact on farm profits of the higher irrigation rates mandated under 1992 legislation and of further rate increase under various scenarios, (2) estimates the financial benefits to the federal government of increasing the irrigation rates, and (3) determines how farmers can mitigate the impact of higher rates.

Natural Resources: Defense and Interior Can Better Manage Land Withdrawn for Military Use

GAO/NSIAD-94-87, Apr. 26 (57 pages).

The Military Lands Withdrawal Act of 1986 removes from public use until the year 2001 more than 7 million acres and makes them available to the military for training and weapons and equipment testing. GAO reviewed the

experiences at the six sites named in the act, which are located in Alaska, Arizona, Nevada, and New Mexico, and found that resource management results have been mixed. Military operations have not been hampered, but military commanders have changed some training exercises to accommodate concerns for wildlife. Five of the six sites had resource management plans, but only about half of the planned actions had been started as of November 1993. Three sites had access restrictions that made it hard for the Bureau of Land Management (BLM) to carry out resource management activities. These restrictions and the military presence led BLM to assign a low priority to resource management on military land. At three sites, BLM allocated considerably less money to manage lands used for military training than for other property under its care. All six sites could improve resource management by strengthening cooperation between BLM and the military and by better monitoring progress on planned resource management actions. This report includes photographs of the terrain at the six sites.

**Pacific Whiting Harvest:
Controversy Surrounding 1993 Allocation Between
Processing Sectors**

GAO/RCED-94-122, May 10 (17 pages).

The 1993 Pacific whiting harvest was controversial. The Department of Commerce rejected the Pacific Fishery Management Council's proposed allocation of the whiting harvest between the shoreside and at-sea processing sectors. The Council had proposed that up to 74 percent of the 1993 harvest be allocated to those fishing vessels delivering their catch to shoreside processors and that the rest be made available to vessels delivering their catch to at-sea processors. After much deliberation, Commerce—one day before the opening of the 1993 fishing season—approved an allocation of 30 percent to the shoreside sector and 70 percent to the at-sea sector. GAO concludes that the allocation decision for the 1993 Pacific whiting harvest was in accordance with federal agency decision-making procedures and regulations. Commerce rejected the Council's recommendation because of inadequate support. The timing of the decision, which differed little from the timing of the 1992 decision, was the result of the considerable time that federal officials spent deliberating the Council's proposed shift in the 1993 allocation between the two processing centers.

Science, Space, and Technology

Federal Research: Additional Funds for Terminating the Super Collider Are Not Justified

GAO/RCED-94-153, Apr. 8 (11 pages).

A request from the Energy Department (DOE) for an additional \$180 million to cover termination costs for the Superconducting Super Collider in Texas, on top of \$735 million already available, is not adequately justified and is not needed for currently estimated termination activities. The \$735 million available for terminating the super collider exceeds DOE's latest cost estimate, made in March 1994, by \$167 million; this estimate pegs termination costs at \$568 million. This amount omits the costs of settling Texas' demand for a \$539 million refund from DOE for its investment in the project. DOE has not yet determined what is owed to Texas and is now negotiating with the state on a settlement. DOE's \$180 million request for fiscal year 1995 to cover termination costs and to potentially fund new uses of the collider's assets is not justified at this time. Additional funds are not needed for currently estimated termination activities, and it is premature to fund yet-to-be-determined future users of the collider's assets.

Technology Transfer: Improving the Use of Cooperative R&D Agreements at DOE's Contractor-Operated Laboratories

GAO/RCED-94-91, Apr. 15 (16 pages).

Technology transfer between federal laboratories and industry is increasingly viewed as a major factor contributing to the economic strength and competitiveness of the United States. In 1986, Congress sought to enhance the effectiveness of this transfer by authorizing cooperative research and development agreements as another form of technology transfer. This report compares the Energy Department's (DOE) process for implementing cooperative R&D agreements to the approaches used by the Army and the National Institute of Standards and Technology to determine why some federal laboratories had entered into more agreements than DOE's laboratories.

**NASA Property:
Poor Lending Practices and Controls at the Jet
Propulsion Laboratory**

GAO/NSIAD-94-116, Apr. 18 (16 pages).

Poor lending practices and controls at the Jet Propulsion Laboratory—NASA's principal center for solar system exploration—have allowed employees to borrow NASA equipment, including computers, VCRs, and cellular phones for years at a time, and the Laboratory has written off more than \$5 million worth of NASA items as lost or stolen. The Laboratory, which is federally funded but managed by Caltech, has about 6,400 employees and an annual operating budget of about \$1 billion. GAO found major weaknesses in the policies, procedures, and practices for lending NASA equipment to Laboratory employees; in the identification and control of NASA equipment at Caltech; and in the Laboratory's overall property management system. The upshot is that equipment has been purchased unnecessarily, underused, lost, or stolen. By September 1992, more than 4,000 items worth about \$7.6 million were on loan to Laboratory employees, mostly computer equipment. Most of the borrowed equipment was for home use and many borrowers were keeping it for lengthy periods—two years or more was common. NASA now plans to reassess the Laboratory property system and has directed the Laboratory to do a complete inventory in 1994.

Social Services

**Older Americans Act:
Funding Formula Could Better Reflect State Needs**

GAO/HEHS-94-41, May 12 (84 pages).

In response to congressional concerns that current title III allocations do not fully reflect indicators of states' needs, GAO examined the interstate funding formula of the current Older Americans Act of 1965. This formula allocated more than \$770 million in federal title III dollars in fiscal year 1993 among the 50 states and the District of Columbia. GAO concludes that Congress should modify the formula for distributing title III money to better target those elderly persons with the greatest social and economic needs. In this report, GAO (1) develops equity standards appropriate to evaluating the allocation of title III assistance to the states, (2) uses these standards to create alternative formulas under which funds might be distributed more equitably, (3) shows how each of the alternatives would

redistribute funding among the states, and (4) explores ways of phasing in a new formula to moderate the degrees of funding changes in a single year.

Child Care:

Working Poor and Welfare Recipients Face Service Gaps

GAO/HEHS-94-87, May 13 (19 pages).

In response to the growing number of working mothers with young children, Congress created four new child care programs for low-income families. These programs received more than \$1.5 billion in federal funding in fiscal year 1992. Although states are making strides toward coordination of federally funded child care services, some federal requirements, coupled with resource constraints, are creating gaps in the delivery of these services to the poor. Specific service gaps stem from program differences in (1) categories of clients who can be served, (2) limits on the type of employment that clients can undertake without compromising their benefits, (3) limits on the amount of income that clients can earn without losing their eligibility, and (4) limits on the time during which clients can receive child care subsidies. Despite congressional expectations that the block grant, the largest of the four programs, would motivate states to boost direct support to working poor families needing child care, the existing fragmented system of subsidized child care appears to provide little incentive for states to do so. In an environment of finite resources, in which the child care programs for welfare and recent welfare recipients are entitlements, there is pressure to serve these groups while equally needy working poor families may go unaided. Moreover, each of the four programs unintentionally segments the poor into categories that fail to recognize the similarity of their economic plight and child care needs. State officials believe that they would be better able to deliver child care that supports self-sufficiency if greater consistency existed across programs and if they had greater flexibility in how they spend their federal child care funds.

Early Childhood Programs:

Many Poor Children and Strained Resources Challenge Head Start

GAO/HEHS-94-169BR, May 17 (29 pages).

The number of children under age five who are at risk of school failures increased greatly during the 1980s. Education reform and the reauthorization of Head Start—the centerpiece of federal early childhood

programs—have concentrated on improving the quality of early childhood programs and increasing the number of children being served. This report highlights the major themes and policy implications for implementing Head Start and other early childhood programs. GAO concludes that efforts to improve the quality of the Head Start program and expand it to include more children are complicated by several factors: the growing numbers and changing characteristics of poor children, rising costs of services, and limited community resources.

Federal Aid:

Revising Poverty Statistics Affects Fairness of Allocation Formulas

GAO/HEHS-94-165, May 20 (12 pages).

Concerns have been raised in Congress that revising counts of people in poverty by adjusting the official poverty line for geographic difference in the cost of living could significantly alter the allocation of federal aid to state and local government. This report presents GAO's views on how such a revision could affect the fairness of the distribution of federal formula grants if such an adjustment were made. GAO concludes that adjusting poverty counts to reflect differences in the cost of living, if proven feasible, would bolster the federal government's ability to target federal aid to places with the greatest needs. GAO also believes that such a change should not be implemented in federal allocation formulas without first assessing the impact of the change on the fairness with which federal funding is allocated to states and localities. In a formula lacking an indicator of states' own funding capabilities, such as change by itself could increase inequities. In formulas that already adequately reflect states' funding capabilities, such a change would improve fairness.

Families on Welfare:

Sharp Rise in Never-Married Women Reflects Societal Trend

GAO/HEHS-94-92, May 31 (68 percent).

From 1976 to 1992, the proportion of single women receiving welfare who had never been married more than doubled, rising from 21 percent to 52 percent. This change parallels a broader societal trend among all single mothers. Women receiving welfare in 1992 were also more likely to have a high school diploma and to have fewer children. These demographic changes among single women receiving welfare mirrored similar trends among all single mothers. However, single women on welfare in 1992 were

poorer than in 1976, even though they worked in about the same proportions. Total family incomes dropped due to a decline in the real value of earnings and welfare benefits. The dramatic growth in the number of never-married women receiving welfare has important policy implications. Not only have never-married women and their families driven welfare caseloads to record levels, these families also affect other programs. For example, child support is hard to obtain for never-married women, who are less likely to have child support orders. Moreover, because the growth in never-married women receiving welfare reflects broader societal trends, it is unclear what impact welfare reform may have on the growth in the number and proportion of never-married women receiving welfare.

**Families on Welfare:
Focus on Teenage Mothers Could Enhance Welfare Reform Efforts**

GAO/HEHS-94-112, May 31 (28 pages).

Welfare families headed by women who have less than a high school education, little recent work experience, or children younger than age six are less likely to get off welfare quickly than are other families. These characteristics are especially prevalent among teenage mothers receiving welfare. Moreover, being a teenage mother has long-term implications for the welfare system. Together, current and former teenage mothers make up a large percentage of the welfare caseload, totalling nearly 42 percent of all single women on welfare in 1992. And they are among the poorest welfare recipients—more than half of women who gave birth as teenagers had total family incomes below 50 percent of the poverty line in 1992.

**Families on Welfare:
Teenage Mothers Least Likely to Become Self-Sufficient**

GAO/HEHS-94-115, May 31 (36 pages).

Women who gave birth as teenagers make up nearly half the welfare caseload—a sizeable group. GAO found that this group of women is less likely to have high school diplomas and more likely to have larger families. Both these characteristics increase the likelihood of being among the poorest welfare recipients. Even though they work in the same proportions as other women receiving welfare, they earn less and are more likely to have total family income below 50 percent of the poverty line. Given these differences, teenage mothers may have the hardest time

earning their way off welfare and becoming self-sufficient. As Congress debates welfare reform, it may need to explore ways to discourage young mothers from becoming welfare dependent and encourage those that do to become more self-sufficient.

Tax Policy and Administration

Tax Gap: Many Actions Taken, but a Comprehensive Compliance Strategy Needed

GAO/GGD-94-123, May 11 (87 pages).

Despite new compliance tools provided by Congress, the gross "tax gap"—the difference between what corporations and individuals owe and what they voluntarily pay—has continued to grow, from \$76 billion in 1981 to \$127 billion in 1992. IRS further estimates that its enforcement programs failed to collect about three-quarters of the gross tax gap. Such annual tax losses intensify pressures in funding necessary programs. This report analyzes the composition of the tax gap, congressional and IRS prior efforts to reduce the tax gap, IRS' ongoing and planned efforts to improve compliance, and what more could be done to close the tax gap.

Transportation

Transportation Infrastructure: Benefits of Traffic Control Systems Are Not Being Fully Realized

GAO/RCED-94-105, Mar. 30 (33 pages).

Traffic congestion, particularly in cities, pollutes the air, jeopardizes safety, impedes energy conservation, and results in aggravating delays. Its adverse effects on the local and national economy are pegged at \$40 billion annually. Although adding more road capacity can reduce traffic congestion, states and localities can also reduce congestion through transportation control measures, such as improving public transit, encouraging employers to provide incentives for carpooling, and making better use of existing roads with effective traffic control signal systems. This report discusses (1) the benefits of traffic control signal systems; (2) the problems that state and local agencies face in implementing, operating, and maintaining effective signal systems; (3) the relationship of the current signal systems to emerging technologies like Intelligent Vehicle/Highway Systems; and (4) the role of the Federal Highway Administration in assisting state and local governments with their signal

systems through reviews of plans and other measures. GAO also provides related information on the operation of traffic control signal systems, such as left and right turns on red signals and the practice of running red signals.

**Department of Transportation:
University Research Activities Need Greater Oversight**

GAO/RCED-94-175, May 13 (45 pages).

Over the past several years, the Department of Transportation (DOT) has increasingly relied on universities to assist it in meeting its research needs. DOT was unable to provide GAO with complete or accurate information on all awards. Consequently, GAO surveyed 206 universities about awards and costs and found that 141 institutions had received \$190 million in new awards directly from DOT during fiscal years 1991 through 1993. Sixty-three percent of the reported awards included overhead costs. For these awards, 20 percent of the total funds went for overhead. During the same period, Congress earmarked \$178 million in DOT funds to 46 universities or university-related facilities; DOT had obligated about \$110 million as of September 1993. DOT's planning for university research is diverse and fragmented and is not pursued through an integrated plan. In addition, although DOT has several systems to track spending on its awards, none of them provide complete and accurate information on the total number or purpose of university awards. DOT has provided limited financial oversight of awards to universities. GAO identified several cases in which DOT allowed overcharges or questionable costs that could total nearly \$500,000. In addition, GAO discovered that the lack of oversight has resulted in grantee noncompliance with cost-sharing arrangements totaling almost \$3 million.

**Aviation Security:
Development of New Security Technology Has Not
Met Expectations**

GAO/RCED-94-142, May 19 (59 pages).

Although the Aviation Security Improvement Act of 1990, passed in the wake of the terrorist bombing of Pan Am Flight 103, set goals for deploying new technology to detect explosives, the Federal Aviation Administration (FAA) has made little progress toward introducing new detection systems into everyday use. Several devices show promise, but

technical problems are hampering their development and approval. FAA estimates that it could take as long as five years to approve new devices for airline use. Similarly, FAA's efforts to enhance airline survivability are promising but years from completion. GAO identified several weaknesses in FAA's security research program. For example, FAA does not plan to test new explosive detection systems at airports during the certification process. Further, FAA does not (1) do software reviews to evaluate system designs, (2) emphasize integrating different technologies into total systems, and (3) give enough attention to human factors. Purchasing the new security equipment will also place demands on airlines throughout the next decade. Yet FAA lacks a strategy to guide the introduction of this equipment. If FAA expeditiously develops a strategy, the airlines will be in a better position to plan and budget for future security acquisitions. In addition, Congress is considering clarifying the availability of Airport Improvement Program grants to buy explosive detection systems. Several issues need to be resolved before such funds can be used for that purpose.

Testimony

International Aviation: New Competitive Conditions Require Changes in DOT Strategy, by Kenneth M. Mead, Director of Transportation Issues, before the Subcommittee on Aviation, House Committee on Public Works and Transportation. GAO/TRCED-94-194, May 5 (22 pages).

Foreign markets have become increasingly important to the bottom lines of U.S. airlines. The success of U.S. airlines in these markets is limited, however, because of extensive access restrictions and many operating and market impediments. In attempting to lower these barriers, the Transportation Department (DOT) has adopted an "open skies" approach. It is apparent, however, that a truly open skies environment is unlikely in the foreseeable future. GAO believes that DOT needs to adopt a strategic approach that better uses its substantial leverage—greater access to the world's largest aviation market—to induce foreign countries to open their markets. A more strategic approach should include (1) better analysis by DOT of long-term competitive impacts before reaching agreements with foreign governments or making major policy decisions, (2) improved analyses by identifying code-share flights in its traffic data, (3) more expertise and experience in international aviation at the State Department, and (4) a review of the existing policies that severely restrict the participation of U.S. passenger and cargo airlines and other parties in bilateral negotiations.

Air Traffic Control: Observations on Proposed Corporation, by Allen Li, Associate Director for Transportation Issues, before the Subcommittee on Transportation and Related Agencies, Senate Committee on Appropriations. GAO/T-RCED-94-210, May 12 (18 pages).

GAO testified that exemption from procurement regulations would not necessarily result in air traffic control equipment being installed more quickly in the field. Modernization delays have been caused by other factors, such as underestimating the technical complexity of system development. Regarding the issue of the Federal Aviation Administration's (FAA) positioning itself for the future, GAO found inconsistent signals. The proposal to create a government-owned air traffic control corporation, one that is exempt from federal procurement and personnel regulations and the appropriations process, suggests a hamstrung FAA struggling to update its air traffic control system. However, FAA's recently issued plans for modernizing the system describe a different FAA—one that has already accomplished a great deal and has several new technologies coming on line. Finally, among the financing issues raised by the proposal, revenue and expenditure assumptions deserve a closer look and close scrutiny of how safety will be ensured is warranted.

Veterans Affairs

Testimony

VA Health Care Reform: Financial Implications of the Proposed Health Security Act, by David P. Baine, Director of Federal Health Care Delivery Issues, before the Senate Committee on Veterans' Affairs. GAO/T-HEHS-94-148, May 5 (21 pages).

This testimony discusses the financial and policy implications of the veterans' health care provisions in the administration's proposed Health Security Act. GAO focuses on (1) veterans health coverage under Department of Veterans' Affairs (VA) and other federal programs; (2) factors that will likely affect potential enrollees in VA health plans; (3) the potential costs associated with the expanded entitlement and supplemental benefits provisions of the Health Security Act; and (4) VA's ability to set realistic premiums and the implications of inaccurate premiums for cost, quality, and access to care for VA clients.

Special Publications

GAO Reports: Health, Education, Employment, Social Security, Welfare, and Veterans Issues

GAO/HEHS-94-163W, May 1994 (75 pages).

This booklet lists GAO documents issued on government programs related to health, education, employment, social security, welfare, and veterans issues, which are primarily run by the Departments of Health and Human Services, Labor, Education, and Veterans Affairs. One section identifies reports and testimony issued during the past five months and summarizes key products. Another section lists all documents published during the past two years, organized chronologically by subject. Order forms are included.

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